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Nicaragua: Shifting International Economic Linkages

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A Research Paper

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October 1985

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Nicaragua: Shifting International Economic Linkages

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A Research Paper

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This paper was prepared by [redacted]
[redacted] Office of African and Latin
American Analysis. It was coordinated with the
Directorate of Operations. [redacted]

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Comments and queries are welcome and may be
directed to the Chief, Middle America–Caribbean
Division, ALA, [redacted]

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Scope Note

This research paper is the first in a two-part series on Nicaragua's general economic situation and outlook. This study examines the shift in Nicaragua's international economic ties since the Sandinistas seized power in 1979 and the country's growing dependence on the Soviet Bloc. In setting the scene for a subsequent intelligence assessment on Nicaragua's domestic economic problems, this Research Paper provides a statistical base that allows analysis of both the structure and pace of evolving financial and commercial ties. The statistical estimates in this study are derived from several—often conflicting—sources. In reconciling the data, we gave precedence to those reported by the United States and OECD nations. Official statistics for the Soviet Union and Nicaragua were necessary for many estimates and were also used for a cross reference.

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Nicaragua: Shifting International Economic Linkages

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Summary

*Information available
as of 15 September 1985
was used in this report.*

After coming to power in 1979, the Sandinistas began to fundamentally shift Nicaragua's foreign economic relations away from the West and toward the Soviet Bloc. Trade data show that nonmilitary transactions with the Bloc, which were negligible before the revolution, began to rise in the immediate aftermath of Somoza's fall. By 1984 Bloc trade had climbed to \$280 million, accounting for nearly one-fourth of Nicaragua's trade. Trade and financial trends so far this year indicate that Bloc countries have supplanted Nicaragua's Latin neighbors as Managua's key trading partners.

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Even before the US embargo, Nicaragua's trade with the West was on the wane. According to Embassy reporting, since the revolution the Sandinistas' policy has been to reduce trade with the United States because of ideological differences. After the United States cut off aid to Nicaragua in 1982, the Sandinistas redoubled their efforts to redirect trade and reduce their economic dependency. In addition to any conscious policy driven by anti-US motivations, the marked shift in trade linkages was further intensified by funding difficulties with the West,

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From a country and regional perspective:

- US companies cut back on trade as debts piled up and Managua's ability to repay came into question.
- Some of the sharpest drops came in Nicaragua's trade with its Central American neighbors, which fell from \$400 million in 1980 to \$100 million last year, largely because of renewed regional turmoil and Managua's lack of creditworthiness. In addition, Mexico and Venezuela have cut trade because of Managua's credit problems.
- Of Nicaragua's Western trade, only that with Western Europe, Japan, and Canada has held ground at prerevolution levels, accounting for about one-third of total trade.

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Managua's foreign aid linkages have also been dramatically altered since 1979. Before the revolution, official financial support to Nicaragua came largely from the Western-controlled multilateral lending organizations that supplied nearly half of Nicaragua's total borrowing. The United States provided another third, and West European and Latin donors made up the balance, with no Bloc support being provided. Immediately

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following the revolution, large amounts of concessional funding came from all corners including the Soviet Bloc, and the share of total funding from the United States and the multilateral organizations fell, despite increases in the dollar value of that aid. By 1984 the Bloc's share was up to nearly 45 percent of economic assistance, primarily in the form of credit lines for Bloc exports. Indeed, by last year the Bloc's importance in relative terms exceeded that of both the United States and Western Europe on the eve of the revolution.

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Looking ahead we believe Nicaragua's overall trade and financial situation will increasingly depend on the depth of Moscow's pockets. Extrapolating from past trends, and given Managua's limited ability to market exports to its newfound trading partners, we expect Nicaragua's dependence on Soviet Bloc assistance to continue to grow over the next 12 months. Because of large new credits granted by the Soviets and their allies during the first half of 1985, we expect to see a continued rise in economic support, though probably not at levels sufficient to offset the decline in Nicaragua's economy.

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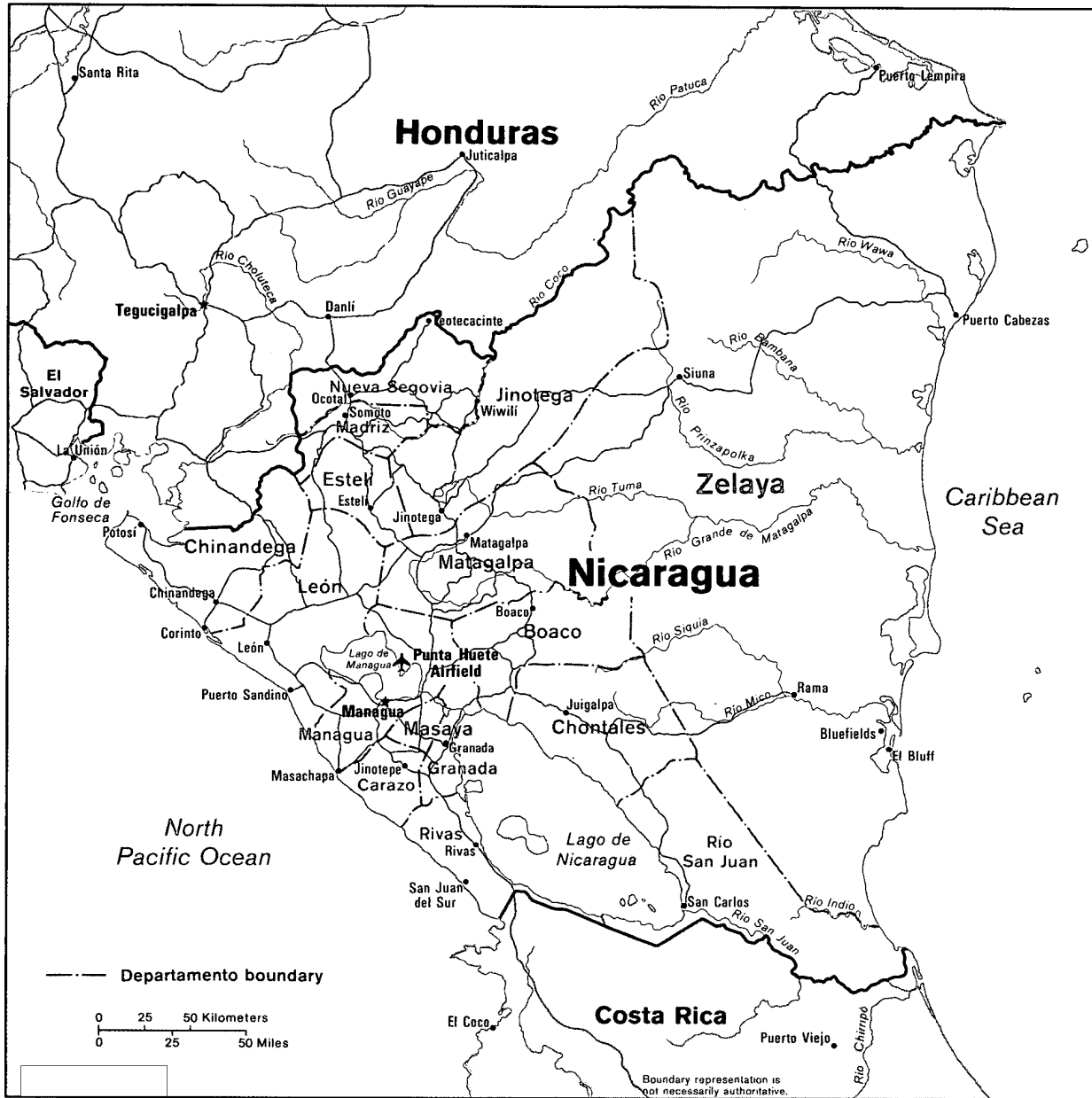
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Figure 1



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Nicaragua: Shifting International Economic Linkages

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The Changing Trade Patterns

During the past six years, the Sandinistas have fundamentally changed the structure and patterns of Nicaragua's foreign trade. As far as the level of trade is concerned, official Nicaraguan statistics indicate that exports—mostly agricultural products—are off dramatically, down 50 percent in volume from their 1975-77 average level, while nonmilitary imports have also shown a slight decline over the same period. In addition, the direction of trade has shifted. Long before the imposition of the US embargo on trade with Nicaragua last May, official statistics from both the United States and Nicaragua showed a sharp fall in bilateral trade. Statistics published by Nicaragua and the Soviet Union indicate that, as trade with the United States and other traditional partners dwindled during the past six years, the Soviet Bloc has steadily supplanted the West.

The Soviet Union and Cuba have been Nicaragua's most important new trade partners. Nicaraguan and Soviet bilateral trade grew to \$14 million in 1981, to \$70 million in 1983, and to \$171 million by 1984. The Soviet decision to begin supplying crude oil to the Sandinistas in late 1983 has accounted for much of the recent acceleration.

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According to Soviet trade statistics, bilateral trade has continued to mushroom since the end of 1984. Soviet exports to Nicaragua alone surpassed \$70 million during the first three months of this year. If this pattern continues, as we believe likely, total Soviet-Nicaraguan trade for 1985 would reach \$300 million, 75 percent above last year's level. Oil would account for about one-third of the total.

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The growth of bilateral trade with Cuba has shown a similar rise. Within a month of the takeover in mid-1979, Havana trumpeted new bilateral trade ties. Growth in Cuban-Nicaraguan trade started slowly but hit \$19 million in 1981, \$32 million in 1982, and has averaged \$50 million annually during the past two years.

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The Opening to the Soviet Bloc

During the years just before the revolution, trade statistics show that Nicaragua had virtually no trade with Cuba or the USSR and only a few minor deals with East European countries. Within nine months of the Sandinista victory, however, Managua had signed trade pacts with Moscow and Havana, according to diplomatic and press reports, and had received trade missions from East Germany, Bulgaria, and Czechoslovakia.

Nicaraguan trade statistics indicate that commercial exchanges with Eastern Europe have also grown rapidly. East Germany, Bulgaria, and Czechoslovakia have become key new trading partners. During the last two years, trade with East Germany has averaged about \$25 million per year, Bulgaria \$21 million, and Czechoslovakia \$13 million.

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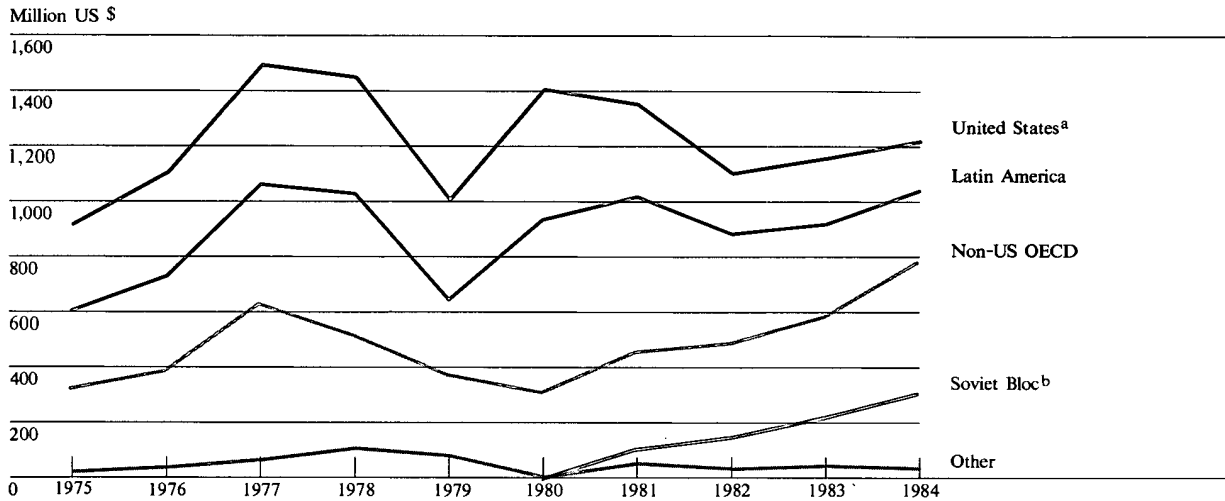
According to official statistics, trade with the Soviet Bloc began to grow rapidly soon after these new trade pacts were in place. US Embassy and press reporting indicates that much of this trade increase was based on generous concessional credits. Trade between Nicaragua and the Soviet Bloc jumped to \$60 million in 1981, doubled in 1982, and grew by 50 percent each year during 1983 and 1984. By 1984, trade with these countries reached \$280 million, one-fourth of the total Nicaraguan trade.

The Sandinistas have been much more successful in arranging for imports from the Soviet Bloc on credit terms than they have been in selling their products to these countries. According to Soviet and Nicaraguan

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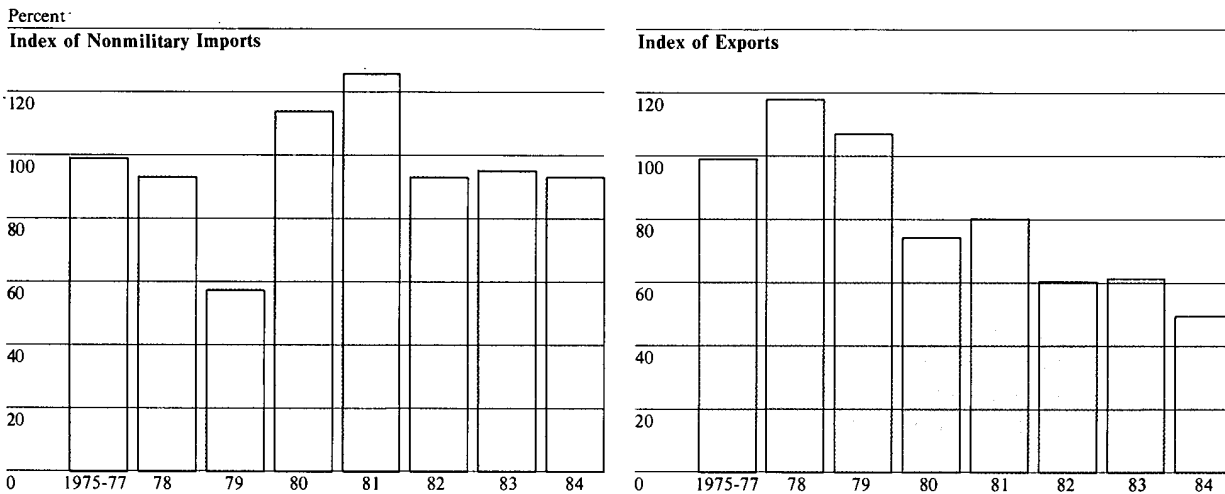
Figure 2
Nicaragua: Shifting Trade Partners, 1975-84



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Figure 3
Nicaragua: Trade Volume, 1975-84



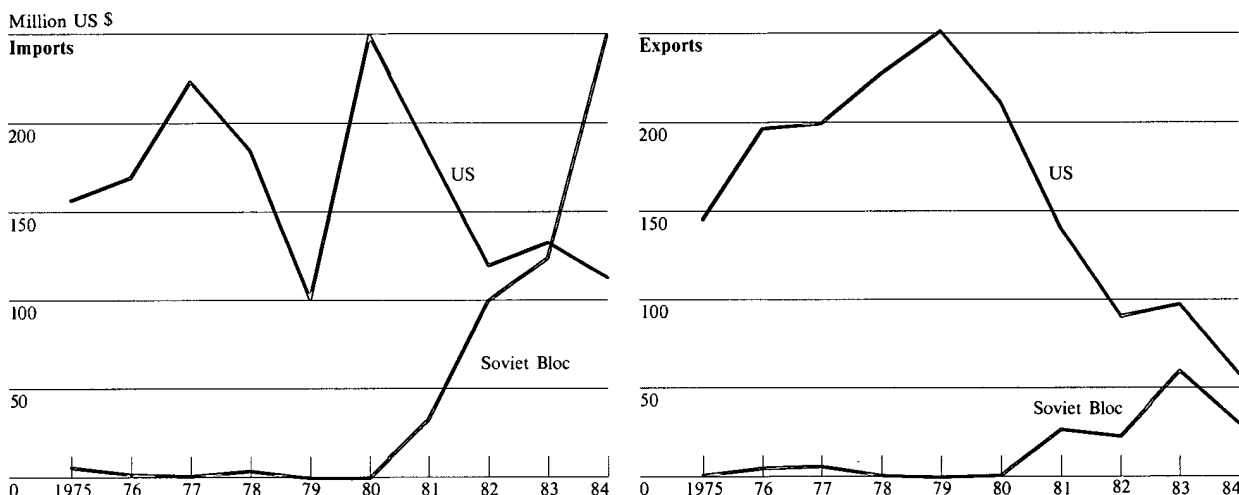
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Figure 4
Nicaragua: Imports and Exports From the
US and Soviet Bloc, 1975-84



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trade data, between 1980 and 1984 Managua's imports of nonmilitary goods from the USSR, Cuba, and Eastern Europe grew steadily from less than \$1 million to about \$250 million. On the other hand, Nicaragua's exports—mostly agricultural products—to Cuba, the USSR, and Eastern Europe expanded from almost nothing to \$60 million by 1983, then fell back to \$30 million in 1984. While we believe that the rapid runup in Soviet Bloc sales to Nicaragua was largely a result of increased financial aid commitments, the reason for the recent reduction in Nicaraguan export sales is less clear. Part of the falloff was almost surely caused by Nicaragua's poor harvests and declining industrial output, but other factors were also probably at work. [redacted]

[redacted] in some cases initial export deliveries to Cuba, the USSR, and Eastern Europe were rejected because of poor quality. Other difficulties probably include the similarity of Cuban and Nicaraguan exports, and the costs and difficulties in transporting perishable agricultural products over large distances. [redacted]

Trade With Traditional Partners

Nicaragua's trade with its traditional partners for the most part has fallen during the past six years, according to official OECD and Latin American trade statistics. The decline in traditional trade, in our view, has been not only the result of a deliberate tilt toward the East, but also the erosion of Nicaragua's international credit rating. [redacted]

[redacted] nearly all Western businesses that depended on commercial credits to finance trade have stopped shipping merchandise to Managua during the past few years after it built up large debts and after international bankers refused to issue new trade credits. While the Sandinistas have rescheduled all commercial debt owed prior to the revolution, they have been slow to meet new obligations. In these circumstances, most foreign firms have increasingly insisted on hard currency payment up front, a condition that

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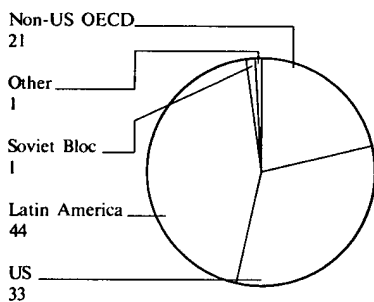
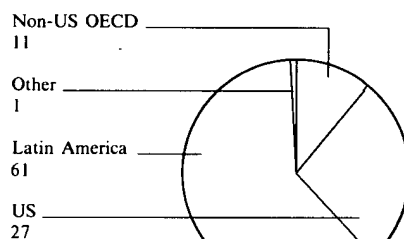
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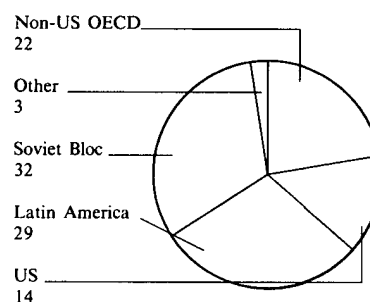
Figure 5
Nicaragua: Import Market Shares

Percent

1975 467 million US \$

1980 915 million US \$^a

1984 795 million US \$

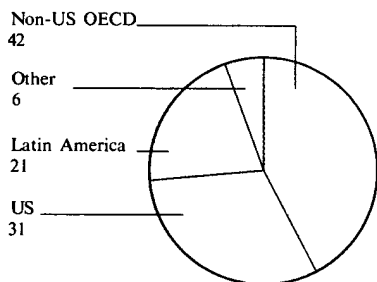
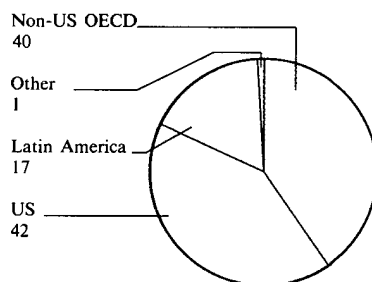
^a Soviet imports were negligible during 1980.

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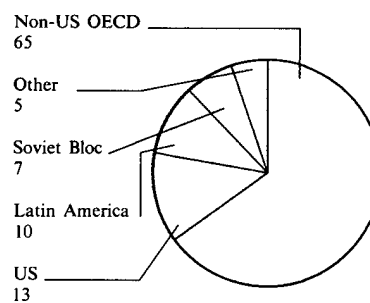
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Figure 6
Nicaragua: Export Market Shares

Percent

1975 465 million US \$^a1980 508 million US \$^a

1984 443 million US \$

^a Soviet exports were approximately 0.2 percent of total during 1975 and 1980.

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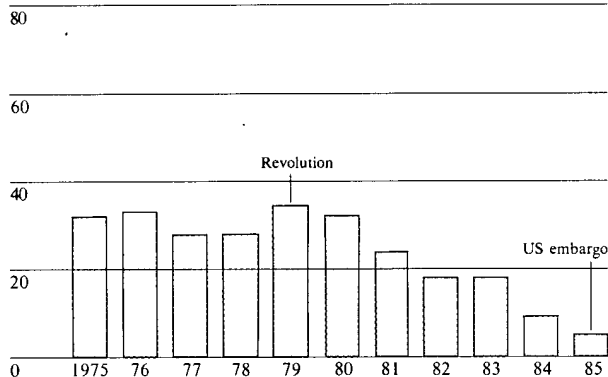
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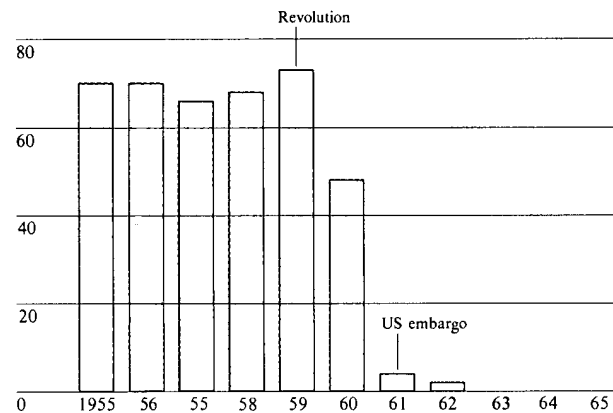
Figure 7
Percent of Nicaraguan and Cuban Total Trade
With US Before and After Revolutions

Percent

Nicaragua



Cuba



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Managua—and particularly Nicaraguan private business—has found very difficult to meet, according to US Embassy reporting. In addition to these normal financial considerations, trade has been further disrupted as some Western capitals have reduced trade credits for political reasons. [redacted]

Among Nicaragua's erstwhile traditional partners, trade with the *United States* has fallen the most. According to US Embassy reporting, the Sandinistas early on sought to diversify trade away from the United States for ideological reasons. After US-Nicaraguan relations deteriorated beginning in late 1981, Managua stepped up efforts to redirect trade to reduce economic vulnerability. Similar to the Cuban experience 20 years earlier, bilateral US-Nicaraguan trade had been cut substantially, even before the announced embargo. Prior to the revolution, according to US and Nicaraguan trade statistics, the US accounted for about 30 percent of all Nicaraguan trade, some \$375 million per year. In the year following the revolution, generous new US trade credits

boosted bilateral trade to \$460 million—its highest level ever. Since then, however, the level of bilateral trade has fallen substantially. By 1984 US-Nicaraguan commerce had shrunk to \$169 million, about 35 percent of the 1980 level and just one-seventh of total Nicaraguan trade. [redacted]

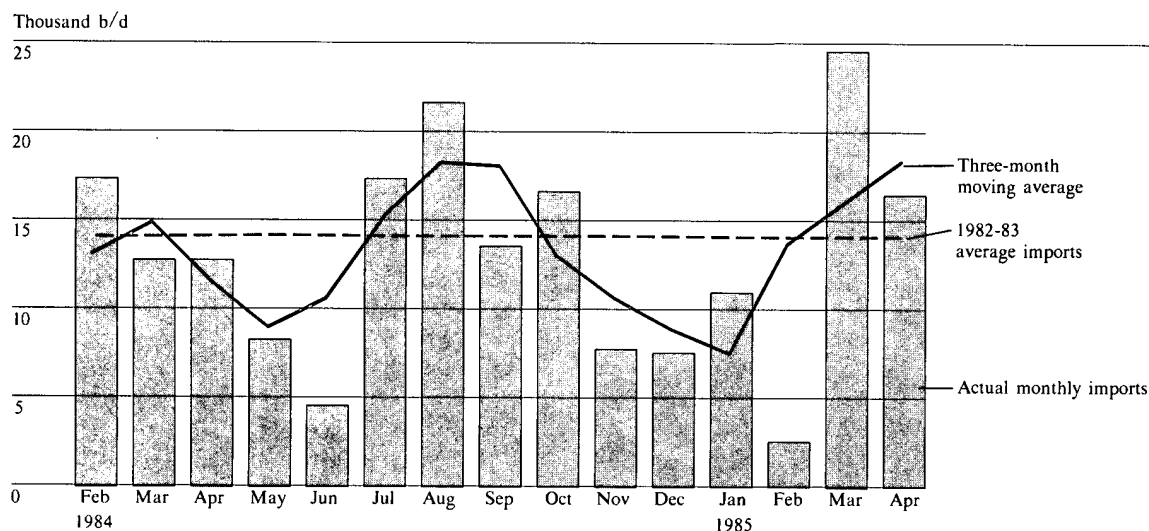
Trade with Nicaragua's *traditional Latin partners* has fallen by similar amounts. Now barely one-sixth of Nicaragua's trade is with Latin America compared with over 40 percent of trade during the first two years following the revolution. Some of the sharpest drops came from declining trade with members of the *Central American Common Market (CACM)*.¹

¹ Current members of the CACM are Guatemala, El Salvador, Honduras, Nicaragua, and Costa Rica. [redacted]

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Figure 8
Nicaragua: Oil Imports, 1984-85



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CACM statistics show that Nicaragua's Central American trade averaged more than \$250 million per year during 1975-79. By 1980 CACM trade with Nicaragua increased to over \$400 million, as the CACM countries—following the example of the United States and many other Western nations—initially expanded trade in a show of support for the new regime. Since 1980, however, Nicaragua's Central American neighbors have become increasingly disillusioned with Managua's role in regional turmoil and with the accumulation of nearly a half billion dollars in commercial arrearages to its CACM partners, according to US Embassy sources. As a consequence, intraregional trade has plunged. By 1984 CACM trade had fallen by nearly 75 percent to about \$100 million. [redacted]

The reduction of *Venezuelan* and *Mexican* oil shipments to Nicaragua also contributed to the dramatic decline in Nicaraguan-Latin trade. Before 1980, Venezuela supplied the vast bulk of Nicaragua's oil. Beginning in 1981, Mexico began supplying major

amounts of oil to Managua. By 1982 Nicaragua's debt problems began to move the Venezuelans further out of the supply picture, but Mexico offset the decline with new concessional credits and increased shipments—largely for political reasons, according to Embassy reporting. Since late 1983, we believe Mexico City's reluctance to meet all of Managua's oil needs without substantial compensation has been a key factor influencing the Sandinistas to turn increasingly to the Soviets for a steady oil supply, even though Mexico's political commitment to the Sandinistas has prevented a complete shutoff in oil aid. Of all the Latin American countries only *Argentina*, *Brazil*, and *Colombia* have shown slight increases in trade in the past few years. [redacted]

Of all Nicaragua's trade outside the Soviet Bloc, only trade with the non-US OECD—*Western Europe*, *Japan*, and *Canada*—has not fallen. [redacted]

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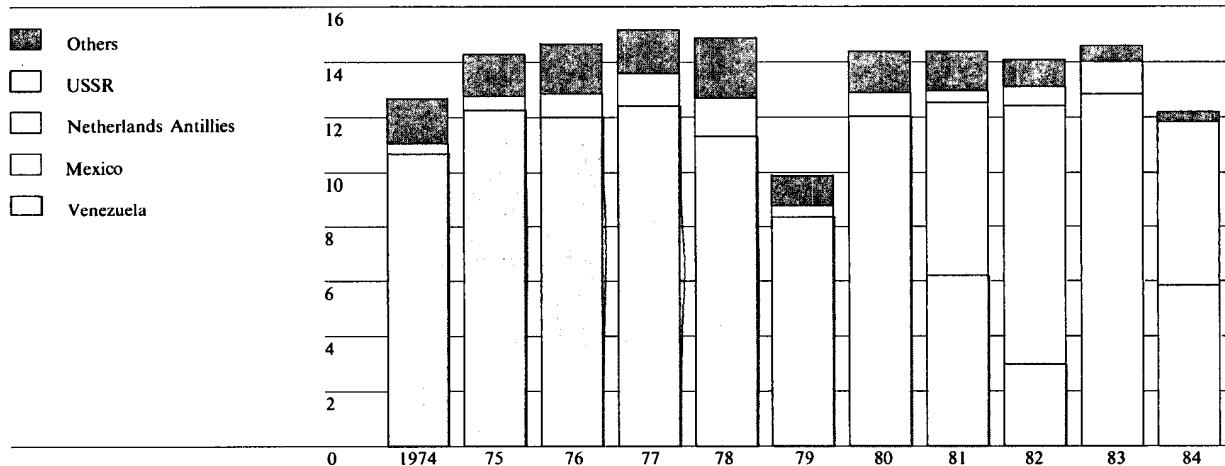
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Figure 9
Nicaraguan Imports of Crude Oil and
Petroleum Products by Supplier, 1974-84

Thousand b/d



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continued high levels of official government credit guarantees have kept non-US OECD private businesses from substantially scaling back sales to Nicaragua. At the same time, the Nicaraguans have worked hard to redirect at least a portion of their traditional exports from the United States to West European and Canadian markets. While overall trade levels have hardly changed since 1979, the share of Nicaragua's trade with Western Europe, Canada, and Japan has risen somewhat because of the erosion in Nicaraguan export base. During 1975-79, trade with these countries averaged \$380 million each year, and accounted for approximately one-third of all Nicaraguan trade. By 1984 the trade reached \$465 million, equal to 37 percent of the total. The most important trade partners in this group have been Japan, West Germany, France, Spain, and Canada.

The Changing Pattern of Foreign Aid Flows

Before and immediately after the revolution, according to OECD and IMF data, the United States and multilateral lending organizations contributed the bulk of Nicaragua's economical support. Within three years of the Sandinista takeover, however—as the Sandinistas' hostility to democracy, private enterprise, religion, and personal and political freedoms became evident—financial support from the West also began to erode. At the same time, Soviet Bloc financial support in the form of trade credits and grants began to grow rapidly. Burgeoning financial support from the Soviet Bloc has more than offset the decline from the West. As a result, overall financial support for the Sandinistas and the Nicaraguan foreign debt are growing at unprecedented rates.

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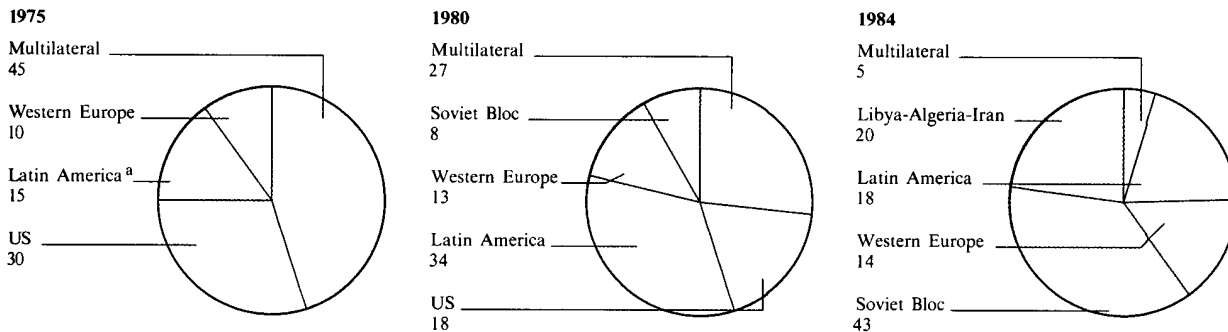
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Figure 10
Nicaragua: Sources of Official
Foreign Financial Support

Percent

^a Estimated from debt figures.

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Mushrooming Soviet Bloc Economic Support

Within a month of the Sandinista victory on 19 July 1979, Managua reached "technical aid" agreements with Cuba, the USSR, and Bulgaria, setting the framework for economic assistance. During the last week in July, Castro publicly promised wide-ranging support to top Sandinista policymakers visiting Havana. New accords with the USSR and Bulgaria were announced by Planning Minister and Commander of the Revolution Henry Ruiz, upon his return from his early August visit to those countries. Managua continued to seek pledges of aid from other Bloc states, and major commitments for specific new projects came from East Germany and Cuba in 1979 and 1980 and from the USSR and most of the rest of Eastern Europe by 1981.²

During the past six years, Bloc economic assistance has continued to grow.

we estimate the value of Bloc commitments totaled some \$1.2 billion between 1979 and 1984. Actual disbursements during the same period were roughly \$800 million and represented about one-fourth of total economic help. Disbursements of economic assistance have tended to lag agreements by one to two years, in part because of the long-term nature of some of the development projects. The bulk of the Bloc's support for the Sandinistas has been in the form of machinery and equipment for development projects. We calculate that by last year, Bloc economic assistance exceeded \$280 million, or nearly 45 percent of total foreign economic support.

This year the Bloc has continued to up the ante. In May and June alone the Bloc provided over \$200

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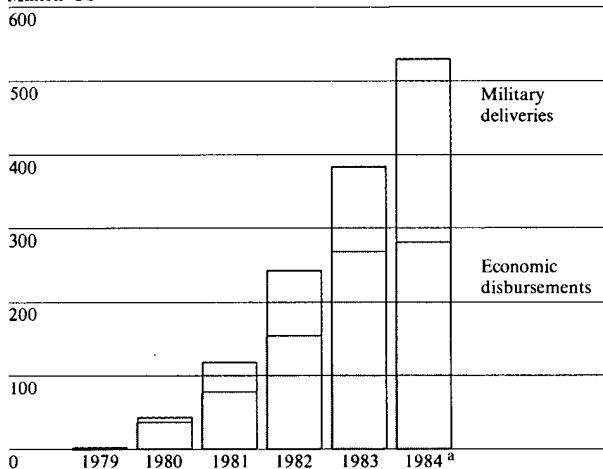
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Figure 11
Nicaragua: Estimated Value of Communist
Economic Disbursements and Military Deliveries,
1979-84

Million US \$



^a Includes \$60 million in oil deliveries, which the Nicaraguans have promised to repay with future commodity shipments.

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million in new commitments for financial support, [redacted] Moreover, the US embargo may have changed the character of the relationship further. [redacted] for the first time the USSR and East Germany have provided nearly \$80 million in hard currency balance-of-payments assistance. Based on these trends so far, we judge that overall Bloc financial disbursements to Managua during 1985 probably will exceed 1984 levels by at least \$100 million. [redacted]

The Soviet Role. While initial Bloc economic assistance came largely from Cuba and East Europe, more recently the Soviet Union itself is providing an increasing share of the support. We calculate that disbursements for capital goods from the USSR have averaged about \$50 million annually during the last three years. Much of this is accounted for by Soviet involvement in port construction at San Juan del Sur, a large hospital in Chinandega, mining, prospecting and mapping, and the construction of technical training centers. [redacted]

Soviet Bloc Support for the Sandinista Military Buildup

Parallel to the rapid growth in economic assistance, there have been the already well documented increases in Soviet Bloc arms deliveries.^a While not publicly announced, new arms deals with Cuba and the Soviet Bloc were concluded within months of the Sandinista takeover. Soviet-made hardware began arriving in 1980, as first the Cubans and then the Bulgarians made substantial arms deliveries. Direct Soviet military shipments occurred by 1981, but not until late 1984 did a Soviet ship deliver major weapon systems directly to the Sandinistas. Deliveries of promised arms have generally lagged new agreements by about one year. [redacted]

Despite initial willingness of several regional governments to provide military and security help, the Soviet Bloc has provided some 95 percent of total foreign military assistance to the Sandinistas since the revolution. Bulgaria and the USSR have each delivered about \$200 million worth of military supplies. More recently East Germany has stepped up arms supplies. While Cuba provides large numbers of military advisers, Havana generally has only provided small arms rather than heavy weapons. [redacted]

A major stimulus to the Soviet's aid program has been Moscow's expanded oil support. The Soviets began supplying oil in December 1983, and, based on observed deliveries, provided half of Nicaragua's oil in 1984 at a commercial value of \$60 million. [redacted] Moscow promised to supply up to 90 percent of Managua's oil needs this year, although actual deliveries may amount to only 80 percent because Mexico continues to supply some

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oil. While Soviet officials publicly claim that the oil shipments are handled on commercial credits, foreign exchange shortages prohibit the Sandinistas from making a substantial payment for the deliveries any time soon. Moreover, we believe that the Soviets will be willing to put up with indefinite delays in Nicaraguan payments.³ [REDACTED]

The Cuban Angle. The Cubans were the first to deliver large-scale economic support to the Sandinistas. Numerous press and diplomatic sources report that the key role Havana played in financing and giving technical and military support to the Sandinistas during the final offensive continued unbroken once the Sandinistas took power. Press reports indicate that eight days after the revolutionary victory hundreds of Cuban doctors, nurses, and teachers arrived in response to Castro's promise of providing broad-ranging support for the Sandinistas. By November 1979 the same sources indicate 700 Nicaraguans were on scholarship studying on the Isle of Youth, and 1,000 Cuban teachers were redesigning curriculums and providing technical advise to the Sandinistas' radio and television programing. Castro quickly expanded economic support, largely through highly publicized technical cooperation agreements, and has kept direct and indirect aid at high levels since. Indeed, we calculate that the \$310 million in economic support that Cuba gave Managua between 1979 and 1984 was modestly higher than either the contribution for economic development from the Soviet Union or from Eastern Europe. [REDACTED]

According to US Embassy and press reporting, most of Havana's support focuses on economic and social development projects. For example, much of Cuba's economic assistance has focused on building sugar refineries, including the large Victoria de Julio facility inaugurated in January by Fidel Castro. Other major Cuban projects widely publicized in the Nicaraguan and Cuban press include road construction from Matagalpa to Puerto Cabezas, building port and rail facilities in the El Bluff area, and the airfield

construction at Punta Huete. Havana has also provided large amounts of agricultural equipment, medical supplies, and consumer goods. This past July, Havana and Managua signed an annual assistance agreement that indicates Cuban aid will continue at about the same levels during the next 12 months as in the previous year. [REDACTED]

The East European Connection. Eastern Europe has also been generous to the Sandinista regime. East Germany has been a major economic donor, providing large quantities of machinery and equipment for development projects. Although Bulgaria's contribution has largely been focused on the military buildup, Sofia is also providing financial and technical assistance for hydroelectric, mining, and agricultural projects and to expand Nicaragua's port at El Bluff. Numerous Nicaraguan press releases indicate that Poland and Czechoslovakia have also been important economic donors. While Romania and Hungary have also signed well-publicized aid agreement protocols with the Sandinistas, they have delivered only small amounts—largely, we believe, because of their own economic problems. In part because East European economic donors have concentrated on long-term agricultural and mining projects, disbursements from them have generally been slower than those from Cuba and the Soviet Union. [REDACTED]

Help From Oil-Rich Sympathizers

We believe stated revolutionary affinity for the Sandinistas has led Libya, Iran, and Algeria to offer generous credits to Nicaragua. Unlike the Soviet Bloc, these countries have tended to offer financial help that the Nicaraguans could use for imports from the West. In 1981 Qadhafi loaned Managua \$100 million and since then has contributed additional money, in part pegged to agricultural projects, [REDACTED] During the past several years, [REDACTED] Libya, Iran, and Algeria have each provided roughly \$25 million in hard currency each year to Nicaragua by allowing Managua to resell crude oil to third parties with long-term deferral of repayment. For example, [REDACTED] Iran in late

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1982 agreed to deliver 2 million barrels of oil to a West European country during 1983 and 1984. The West European country paid cash for the oil and sent the funds to Managua. Even though Managua is behind on its obligation to repay this loan, the Sandinista official newspaper announced in April 1985 that Iran had agreed to repeat the deal during the next two years. Such oil deals have provided foreign exchange that has helped the Sandinistas buy crucial imports and service troublesome debts. Despite the generous aid, thus far new trade deals with these three have been minor. According to Embassy and press sources, Algeria and Iran have taken some shipments of several agricultural commodities, and Libya is discussing other possibilities. [REDACTED]

Eroding Aid From the West

While Bloc assistance has continued to grow, aid from the West has ebbed as Managua has moved to align itself with the East. The initial large increase in Western financial support for the Sandinistas—offered as support for national reconstruction following the civil war—proved short lived in most cases. In 1980 and 1981, financial aid from the West more than quadrupled from prerevolution levels. The United States tripled its already large assistance program to Nicaragua during 1979 and 1980. In April 1981, however, Washington cut off aid after determining that Nicaragua was supporting international terrorism by arming and abetting Salvadoran insurgents. While no new US money has been committed to the Sandinistas, a small amount of funding from projects already in the pipeline was delivered to the Sandinistas during 1982 and 1983. [REDACTED]

Within a few years of the Sandinista victory other regional donors also began reducing their financial support. Immediately after the revolution, the CACM countries, Venezuela, and Mexico opened their checkbooks to the Sandinistas, providing credits for oil and other commodity imports that soared to nearly \$300 million by 1981, according to US Embassy and press reports. Since then Latin aid for the Sandinistas has fallen back to levels near \$100 million per year. US Embassies throughout the region report that this reduction has been caused by a combination of Nicaragua's nonpayment of debt and a growing frustration with the Sandinistas' unwillingness to moderate harsh economic and political policies. [REDACTED]

Outside the hemisphere, other Western countries have continued to provide financial assistance, although there too support is beginning to erode. Disbursements from Western Europe jumped from less than \$10 million per year before the revolution to near \$60 million by 1980. Financial support from these countries gradually increased to near \$100 million by 1983, before sliding to about \$90 million last year. In our view, the non-US OECD countries have largely maintained aid levels because of residual sympathy for the revolution, especially among strong social democratic constituencies; moreover, according to diplomatic traffic, officials from a number of these countries say they believe that only by maintaining financial support to the Sandinistas can they retain enough influence to moderate the regime's policies. [REDACTED]

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Outlook

As Nicaragua's domestic economic problems continue to mount, with industrial and agricultural production falling, the Sandinistas are likely to look for ever larger foreign aid commitments to cover needed imports of machinery, spare parts, industrial chemicals, and food. With continued depressed exports, Nicaragua will remain unable to meet its debt service obligations, and probably will see further erosion of its credit lines with Western nations. Prospects for increased intraregional trade are not favorable, because the other Latin American countries also face growing debt problems and we see no near-term letup in the region's turmoil. [REDACTED]

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The extent to which Western Europe and radical Islamic nations continue to lend financial support will depend on their perception of shifts in Nicaraguan policies—toward moderation or radicalization—and the status of Nicaragua's debt delinquency. Assuming no sharp swing in Sandinista policies, trade and aid with the non-US OECD probably will stay close to current levels. Several countries, such as France, Sweden, and Netherlands have announced that they will marginally boost trade and aid levels with the Sandinistas to offset some of the impact of the US

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embargo. At the same time, other countries such as Spain and West Germany, have reaffirmed cutbacks because of both economic and political factors. West Germany froze its aid package, except for some technical assistance, in 1983 in reaction to Managua's domestic policies. While the Soviets and East Germans have recently provided some hard currency to the Sandinistas to cover overdue trade credits, we expect that the small debt payments that Managua makes will only allow it to maintain, and not expand, Western credit lines. Islamic nations probably will maintain at least current levels of support.

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We believe Nicaragua's overall financial situation will continue to depend on the depth of Moscow's pockets. Extrapolating from past trends, we expect Nicaragua's dependence on Soviet Bloc assistance to continue to grow over the next 12 months. Because of large new Bloc credits granted during the first half of 1985, we expect to see a continued rise in financial support, though probably not at levels sufficient to halt the decline in Nicaragua's economy.

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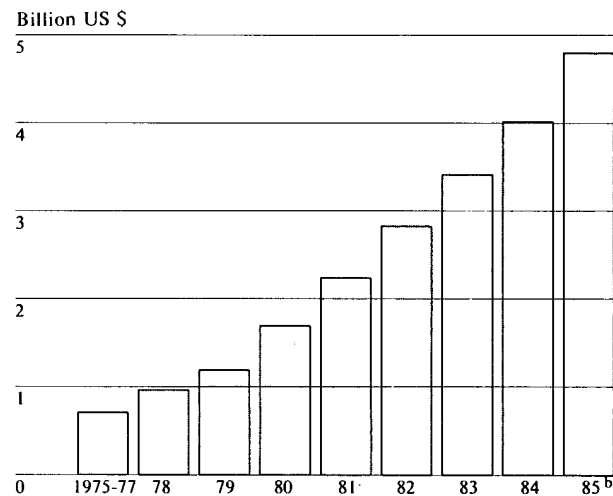
Appendix A

Nicaragua's Soaring Debt

The \$1 billion debt—including just medium- and long-term obligations—that the Sandinistas inherited has expanded nearly threefold during the past six years. Since the revolution, Managua has taken large new loans for economic development projects and to support the military buildup. At the same time, it has consistently delayed repaying the bulk of its financial obligations, arranging instead for generous reschedulings. Largely because of Managua's failure to make debt service payments, commercial bankers have refused to extend new credits, and the great bulk of the increase in debt has come from official sources, including governments and multilateral lending organizations. By the end of 1984, the share of total Nicaraguan debt held by commercial banks had fallen from 40 percent to just 20 percent of the total. Preliminary trade and financial data from a number of sources indicate that by the end of this year Managua's medium- and long-term debt will hit \$4.8 billion. Since the revolution, in part because of the large growth in debt arrearages, Managua's short-term financial obligations have also nearly doubled to about \$650 million. When short-term obligations are included, Managua's total debt will amount to about \$5.5 billion by the end of this year.

Although the financial obligations for servicing this debt have also soared, Managua thus far has been able to delay most debt service payments by rescheduling the bulk of its obligations. Partly as a result, overall debt service obligations are now beginning to increase rapidly. During the years immediately before the revolution, Nicaragua's annual debt payments totaled slightly less than \$100 million per year and were largely serviced on time. During the last several years, by contrast, Nicaragua has faced debt service obligations of nearly \$500 million each year. Press reports, however, indicate that Managua has been

Figure 12
Nicaragua: External Public Debt,^a
1975-85



^a Yearend, medium- and long-term.

^b Projection.

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able to reschedule two-thirds or more of the amounts coming due. Because the Sandinistas have gone to commercial bankers and official creditors with empty pockets, the creditors have had little choice but to agree to token payments and favorable rescheduling arrangements.

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Appendix B

Nicaraguan Trade From
1975 Through 1984**Table 1**
Nicaraguan Total Trade by Partners*Million US \$*

Partner	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Total	932	1,119	1,510	1,465	1,023	1,423	1,369	1,120	1,176	1,238
Soviet Bloc ^a	7	7	7	5	NEGL	1	60	123	184	282
Latin America	300	360	450	530	290	645	581	415	355	279
United States	301	365	422	411	351	460	324	209	229	169
Non-US OECD	294	340	557	403	293	305	342	331	355	465
Other	30	47	74	116	89	12	62	42	53	43

^a Defined in this paper as USSR, Cuba, and Eastern Europe except Yugoslavia.

Sources: United Nations Bilateral Trade; IMF Direction of Trade; US Embassy Managua; Nicaraguan Ministerio De Comercio Exterior; and Soviet trade statistics.

Note: All trade figures have been rounded to the nearest million US \$.

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Table 2
Nicaraguan Exports by Destination*Million US \$*

Partner	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Total	465	593	756	792	674	508	539	406	469	443
Soviet Bloc	1	5	6	1	0	1	27	23	60	30
Latin America	97	130	154	196	93	87	86	66	41	45
United States	145	196	199	227	251	211	140	90	97	57
Non-US OECD	196	218	336	262	244	205	233	199	225	288
Other	26	44	61	106	86	4	53	28	46	23

Sources: United Nations Bilateral Trade; IMF Direction of Trade; US Embassy Managua; Nicaraguan Ministerio De Comercio Exterior; and Soviet trade statistics.

Note: All trade figures have been rounded to the nearest million US \$.

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Secret**Table 3**
Nicaraguan Imports by Source*Million US \$*

Partner	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Total	467	526	754	673	349	915	830	714	707	795
Soviet Bloc	6	2	1	4	NEGL	NEGL	33	100	124	252
Latin America	203	230	296	334	197	558	495	349	314	234
United States	156	169	223	184	100	249	184	119	132	112
Non-US OECD	98	122	221	141	49	100	109	132	130	177
Other	4	3	13	10	3	8	9	14	7	20

Sources: United Nations Bilateral Trade; IMF Direction of Trade;
US Embassy Managua; Nicaraguan Ministerio De Comercio
Exterior; and Soviet trade statistics.

Note: All trade figures have been rounded to the nearest million
US \$.

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Table 4
Nicaraguan Exports to Soviet Bloc*Million US \$*

Partner	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Total	1	5	6	1	0	1	27	23	60	30
USSR	0	0	0	0	0	0	8	8	13	1
Cuba	0	0	0	0	0	0	11	1	18	12
Bulgaria	0	0	0	0	0	0	3	4	11	4
Czechoslovakia	0	0	0	0	0	1	0	5	9	4
East Germany	0	0	0	0	0	0	4	5	7	9
Hungary	0	0	0	1	0	0	1	0	2	0
Poland	1	5	0	0	0	0	0	0	0	0
Romania	0	0	6	0	0	0	0	0	0	0

Sources: United Nations Bilateral Trade; IMF Direction of Trade;
Nicaraguan Ministerio De Comercio Exterior; and Soviet trade
statistics.

Note: All trade figures have been rounded to the nearest million
US \$.

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Table 5
Nicaraguan Imports From Soviet Bloc

Million US \$

Partner	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Total	6	2	1	4	0	0	33	100	124	252
USSR	0	0	0	0	0	0	6	50	57	170
Cuba	0	0	0	0	0	0	8	31	42	34
Bulgaria	0	0	0	0	0	0	1	6	8	17
Czechoslovakia	0	0	0	1	0	0	0	1	3	10
East Germany	0	0	0	0	0	0	18	12	14	19
Hungary	0	0	0	0	0	0	0	0	0	0
Poland	1	1	0	0	0	0	0	0	0	2
Romania	5	1	1	3	0	0	0	0	0	0

Sources: United Nations Bilateral Trade; IMF Direction of Trade;
 Nicaraguan Ministerio De Comercio Exterior; and Soviet trade
 statistics.

Note: All trade figures have been rounded to the nearest million
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Table 6
Nicaraguan Exports to Latin America

Million US \$

Partner	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Total	97	130	154	196	93	87	86	66	41	45
Costa Rica	37	44	48	72	37	39	34	25	18	14
Guatemala	22	31	35	45	21	17	16	14	11	15
Mexico	0	5	8	1	1	0	9	14	8	7
Cam Nes ^a	13	15	17	22	13	14	11	7	0	4
El Salvador	21	28	34	48	18	11	9	5	3	3
Panama	1	2	2	4	1	6	5	1	1	1
Colombia	0	0	0	0	0	0	0	0	0	1
Venezuela	1	3	9	3	1	0	1	0	0	0
Peru	0	0	0	0	0	0	1	0	0	0
Brazil	0	0	0	0	1	0	0	0	0	0
Dominican Republic	0	2	0	0	0	0	0	0	0	0
Jamaica	1	0	0	0	0	0	0	0	0	0
Netherlands Antilles	1	0	0	1	0	0	0	0	0	0
Trinidad and Tobago	0	0	1	0	0	0	0	0	0	0

^a "Central America—Not Elsewhere Specified"—a trade term that includes Belize, Honduras, and the Panama Canal Zone.

Sources: United Nations Bilateral Trade; IMF Direction of Trade; US Embassy Managua; Nicaraguan Ministerio De Comercio Exterior.

Note: All trade figures have been rounded to the nearest million US \$.



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Table 7
Nicaraguan Imports From Latin America

Million US \$

Partner	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Total	203	230	296	334	197	558	495	349	314	234
Mexico	10	13	15	15	6	19	119	155	169	80
Costa Rica	37	48	58	57	39	127	80	46	41	19
Guatemala	36	42	52	67	36	113	77	45	56	29
Venezuela	64	57	87	90	66	172	87	40	0	5
El Salvador	29	36	38	41	23	55	34	18	16	12
Panama	6	6	8	13	6	14	18	12	1	8
Netherlands Antilles	3	5	11	12	4	13	7	9	0	0
Cam Nes ^a	11	15	16	26	13	33	20	8	0	14
Brazil	2	2	5	5	1	5	37	8	12	14
Argentina	1	1	1	2	1	4	9	3	19	28
Colombia	3	3	3	4	2	3	6	2	0	16
Peru	0	0	0	0	0	0	1	2	0	4
Chile	0	1	1	0	0	0	0	1	0	0
Dominican Republic	0	0	0	0	0	0	0	0	0	1
Caribbean	0	0	0	0	0	0	0	0	0	4
Jamaica	1	1	1	2	0	0	0	0	0	0

^a "Central America—Not Elsewhere Specified"—a trade term that includes Belize, Honduras, and the Panama Canal Zone.

Sources: United Nations Bilateral Trade; IMF Direction of Trade; US Embassy Managua; and Nicaraguan Ministerio De Comercio Exterior.

Note: All trade figures have been rounded to the nearest million US \$.



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Secret**Table 8**
Nicaraguan Exports to OECD*Million US \$*

Partner	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
OECD	341	414	535	489	495	416	373	289	322	345
United States	145	196	199	227	251	211	140	90	97	57
Japan	64	82	90	62	40	16	62	48	73	105
Germany	42	48	115	79	74	52	36	37	38	33
France	5	6	12	14	14	24	21	26	28	40
Canada	6	15	15	13	8	30	48	24	25	39
Italy	11	8	14	22	35	20	20	14	15	12
Spain	10	9	10	5	5	17	10	11	17	23
Switzerland	2	6	15	9	10	11	5	9	7	7
Netherlands	6	10	12	12	11	8	4	7	10	9
Austria	4	7	13	12	13	9	9	6	6	7
United Kingdom	24	2	2	3	2	4	2	6	3	3
Finland	1	3	3	2	4	2	2	4	0	4
Belguim/Luxembourg	11	14	23	14	13	9	7	4	3	4
Norway	1	2	3	2	1	0	1	1	0	0
Denmark	8	5	6	11	10	2	4	1	0	1
Australia	0	0	0	1	0	0	1	1	0	1
Ireland	0	0	0	0	0	0	1	0	0	0
Greece	0	0	0	0	1	0	0	0	0	0
Sweden	1	1	3	1	3	1	0	0	0	0

Sources: United Nations Bilateral Trade; IMF Direction of Trade;
US Embassy Managua; and Nicaraguan Ministerio De Comercio
Exterior.

Note: All trade figures have been rounded to the nearest million
US \$.



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Table 9
Nicaraguan Imports From OECD

Million US \$

Partner	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
OECD	254	291	444	325	149	349	293	251	262	289
United States	156	169	223	184	100	249	184	119	132	112
Spain	5	9	40	28	4	5	7	21	19	31
Italy	12	7	8	5	5	6	10	20	12	14
France	3	4	6	6	2	10	6	17	28	31
West Germany	21	29	46	27	11	16	25	14	13	18
Canada	4	5	9	8	3	13	14	13	13	18
Japan	25	39	73	27	7	20	12	9	9	13
United Kingdom	12	15	15	14	7	6	4	9	4	6
Switzerland	5	5	7	6	1	7	7	5	8	11
Netherlands	3	2	4	6	5	6	13	5	8	8
Ireland	0	0	0	2	1	1	3	4	1	2
Belgium/Luxembourg	3	2	3	3	1	3	2	4	2	3
Austria	1	0	1	0	0	1	1	3	6	7
Denmark	2	2	4	5	1	3	2	3	1	1
Sweden	2	1	1	1	0	2	3	2	5	9
Finland	0	1	1	0	1	1	0	2	1	3
Norway	0	0	2	1	0	0	0	1	0	2
Greece	0	0	0	0	0	0	0	0	0	0
Australia	0	1	1	2	0	0	0	0	0	0

Sources: United Nations Bilateral Trade; IMF Direction of Trade;
 US Embassy Managua; and Nicaraguan Ministerio De Comercio
 Exterior.

Note: All trade figures have been rounded to the nearest million
 US \$.



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Table 10
Nicaraguan Exports to Other Countries

Million US \$

Partner	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Others	26	44	61	106	86	4	53	28	46	23
China	0	4	21	46	64	2	21	20	8	8
Taiwan	8	21	6	44	16	0	17	8	7	0
Hong Kong	11	12	11	9	3	0	6	0	0	0
South Korea	0	0	0	3	0	0	4	0	0	1
Thailand	2	1	7	3	3	0	2	0	0	0
North Korea	0	0	0	0	0	0	1	0	0	0
Syria	0	0	0	0	0	0	1	0	0	0
Indonesia	1	0	1	0	0	0	1	0	0	1
Malaysia	0	0	1	0	0	0	0	0	0	1
Philippines	0	3	1	1	0	0	0	0	1	0
India	0	0	8	0	0	0	0	0	0	0
Algeria	0	0	1	0	0	0	0	0	30	12
Morocco	4	3	1	0	0	0	0	0	0	0
Iran	0	0	2	0	0	0	0	0	0	0
Yugoslavia	0	0	0	0	0	2	0	0	0	0
Tunisia	0	0	1	0	0	0	0	0	0	0

Sources: United Nations Bilateral Trade; IMF Direction of Trade;
 US Embassy Managua; and Nicaraguan Ministerio De Comercio
 Exterior.

Note: All trade figures have been rounded to the nearest million
 US \$.

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Table 11
Nicaraguan Imports From Other Countries

Million US \$

Partner	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Others	4	3	13	10	3	8	9	14	7	20
Taiwan	2	2	3	4	1	3	3	7	4	8
South Korea	0	0	4	1	0	1	3	3	2	3
North Korea	0	0	0	0	0	0	1	0	0	1
China	0	0	1	2	1	1	1	0	0	0
Hong Kong	1	1	1	1	0	0	1	1	0	0
Israel	1	0	0	0	0	0	0	1	1	1
India	0	0	1	0	1	3	0	0	0	0
Yugoslavia	0	0	1	0	0	0	0	0	0	5
South Africa	0	0	1	2	0	0	0	2	0	0
Thailand	0	0	1	0	0	0	0	0	0	2

Sources: United Nations Bilateral Trade; IMF Direction of Trade;
 US Embassy Managua; and Nicaraguan Ministerio De Comercio
 Exterior.

Note: All trade figures have been rounded to the nearest million
 US \$.



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Appendix C

Financial Assistance
Since the Revolution**Table 12**
Soviet Bloc Commitments to Nicaragua*Million US \$*

	USSR	Eastern Europe	Cuba	Total
Military				
1979		5		5
1980			5	5
1981	128	2	18	148
1982	12	45	11	68
1983	18	67	12	97
1984	59	182	10	251
Total	217	301	56	574
Economic				
1979		20		20
1980		17	50	67
1981	84	89	64	237
1982	163	84	80	327
1983	16	255	60	331
1984	110	25	40	175
Total	373	490	294	1,157

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Table 13
Summary of Economic Aid Disbursements
to Nicaragua, 1979-84

Million US \$

	1979	1980	1981	1982	1983	1984
Total OECD ^a	85.1	139.8	82.3	94.8	99.0	90.0
Austria	0.2	0.7	0.7	8.7	8.1	
Belgium	0.9	0.3	0.8	0.6	0.5	
Canada		0.3	5.6	2.3	6.2	
Denmark	0.9	0.1	1.4	0.3	1.6	
Finland	0.1	0.6		2.5	1.6	
France		0.5	1.3	8.5	8.7	
West Germany	18.2	13.3	14.2	10.3	16.7	
Italy	1.1	1.1	5.0	2.5	1.9	
Japan	5.5	2.3	0.2	0.3	0.1	
Netherlands	6.4	14.6	15.8	23.9	17.6	
Norway	0.9	0.5	0.4	2.1	2.3	
Spain	10.0	15.0	15.0	15.0	15.0	15.0
Sweden	8.1	7.7	3.9	9.3	12.1	
Switzerland	2.3	0.5	0.8	1.4	2.5	
United Kingdom	0.5	0.3	0.2	0.1	0.1	
United States	30.0	82.0	17.0	7.0	4.0	
Latin America ^b	50.0	150.0	294.0	225.0	220.0	120.0
OPEC Countries ^c			100.0	100.0	125.0	130.0
Total Soviet Bloc	17.0	37.0	78.0	154.0	237.0	281.0
USSR			10.0	34.0	79.0	101.0 ^d
Eastern Europe	2.0	2.0	18.0	50.0	88.0	110.0
Cuba	15.0	35.0	50.0	70.0	70.0	70.0
Total bilateral	152.1	326.8	554.3	573.8	681.0	621.0
Multilateral	51.3	118.4	120.9	63.6	83.2	30.0
Total Loans and Grants	203.4	445.2	675.2	637.4	764.2	651.0

^a Country breakout is not available for 1984.

^b These data are compiled from a number of sources and should be considered as estimates, not actual data.

^c Algeria, Iran, and Libya.

^d Includes \$60 million of oil delivered on current account that probably will be converted to long-term credits.

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Table 14
Summary of Military Aid Disbursements
to Nicaragua, 1979-84

Million US \$

	1979	1980	1981	1982	1983	1984	Total
Communist suppliers							
Bulgaria			0.8	21.0	49.0	134.2	205.0
Soviet Union			27.5	31.0	43.7	79.4	181.6
East Germany		3.5	0.1	26.3	7.5	21.5	58.9
Cuba		2.5	11.0	10.0	12.3	10.0	45.8
North Korea					3.0	3.0	6.0
Other		NA	0.1				0.1
Total	0.0	6.0	39.5	88.3	115.5	248.1	497.4
Free World suppliers							
France				0.5	14.0		14.5
Brazil				7.3			7.3
Libya				3.0			3.0
Spain				5.0			5.0
Japan			2.1			0.1	2.2
Total	0.0	0.0	2.1	15.8	14.0	0.1	32.0
Grand total	0.0	6.0	41.6	104.1	129.5	248.2	529.4

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